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FM AMEMBASSY LIMA  
TO RUEHC/SECSTATE WASHDC PRIORITY 1436  
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 0089  
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0764  
RUEHOT/AMEMBASSY QUITO PRIORITY 0115  
RUEHSG/AMEMBASSY SANTIAGO PRIORITY 0130

C O N F I D E N T I A L LIMA 001619

NOFORN  
SENSITIVE  
SIPDIS

E.O. 12958: DECL: 10/25/2019  
TAGS: [KCOR](#) [KCRM](#) [KJUS](#) [KTFM](#) [XM](#) [PE](#)  
SUBJECT: US TREASURY CONCERNED ABOUT PERUVIAN GAMING SECTOR

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Classified By: Classified by Acting NAS Director Robert Ward for reasons 1.(b) and (d)

¶1. (C) Summary: A team from the Office of Technical Assistance (OTA) from the Department of Treasury was invited by the Peruvian Gaming Commission to Lima in order to conduct a preliminary assessment of the Peruvian gaming sector. During their very short trip, the team met with the Gaming Commission and other entities at the Ministry of Tourism (MINCETUR) as well as with the Financial Intelligence Unit (FIU), and visited the XXXXXXXXXXXX. The team found lax to non-existent regulatory controls, a toothless Gaming Commission staffed by unqualified personnel, and a cursory registration process. The gaming sector is thus wide open to money launderers, drug traffickers, and counterfeiters both Peruvian and foreign. The sector badly needs reform. End Summary.

¶2. (U) At the request of the Peruvian Gaming Commission, the U.S. Department of the Treasury sent the following team to Lima: XXXXXXXXXXXX. This team met with a cross section of Peruvian entities involved in regulating the gaming sector as well as in enforcement, tax collection and private business owners. Though the team was only on the ground for four days, they feel they were able to get a sense of the challenges and vulnerabilities facing the sector as a whole and are preparing a report to be sent to the Vice Minister of Tourism at the end of November.

Peru = Unregulated

¶3. (SBU) According to OTA, if one were to compare the regulatory body or the level of control of the gaming sector in Peru to other countries in the region with Chile being the best and Guatemala the worst, Peru ranks closer to Guatemala. The U.S. Treasury considers the gaming sector in Peru to be "unregulated" and therefore U.S. companies, individuals, or gaming houses that have an operating license in the U.S. are prohibited by law from doing business, serving as management contractors or opening U.S. franchises in Peru. If they did, they would lose their operating license and therefore be forced to shut down all operations in the U.S. The OTA representatives stated that, "No U.S. licensed entity has any business being here in Peru" and if they are here then it is a strong indication that they are up to no good given the financial risk of losing the U.S. license.

The Peruvian Gaming Commission

¶4. (SBU) The Peruvian Gaming Commission (PGC) is made up of 75 employees, most of whom are lawyers, and most of whom, according to OTA, do not even understand how a casino works. As far as the Peruvian Gaming Commission (PGC) is aware there are over 750 gambling locations, meaning casinos and slot machine houses. Most are located in Lima. There are nine casinos in the entire country, all in Lima, and the rest are slot machine houses. (There are 60,000 slot machines in the country that they are aware of) There are also two internet-based gambling entities. According to the PGC's records, there are over 60,000 employees in the gaming sector. NOTE on Internet gambling: because there is no specific regulation prohibiting it, internet gambling is considered legal. However, there is no designated overseer so, according to the PGC, no one has authority to control or regulate this part of the sector. The PGC only has authority

over casinos and slot machines; they do not regulate the lottery, bingo and other such games nor do they have the authority to regulate internet gambling.

#### Slot Machines

15. (SBU) Worldwide approximately six reputable companies make and sell decent machines. Three of these brands exist in Peru, though international sellers of machines are not allowed to sell directly to Peru due to its unregulated sector, status. Therefore, most machines arrive in Peru via third party sellers. Unfortunately, the PGC does not have a testing lab nor the testing capabilities to check machines so as to prevent "rigging." The machines observed by the team were of high quality and in some cases the best quality. However, outside the casinos, there is a larger problem of illegal machines. These are usually Chinese or Japanese and have no mechanism for control or the ability to calibrate for fairness. The PGC has destroyed 4,000 of these machines and continues to remove illegal machines from the market. The Paper Tiger

16. (SBU) In 2006, the Government of Peru granted the PGC the authority to issue licenses and regulate the gaming industry. However, under the same legislation, they were stripped of their ability to collect the taxes generated by the industry that responsibility was given to IRS/Customs (SUNAT). Because the actual amount of tax revenue produced is a fraction of a point in SUNAT's overall assessment, they do not collect the tax and have shown no interest in beginning to collect tax as a form of regulation and control. OTA's assessment is that the PGC has no real teeth; it is a true "paper tiger." Though it can levy some fines, it has no mechanism or ability to collect/enforce laws. NOTE: the PGC is also the lead agency on Anti-money laundering for this sector.

#### The Issue with Licensing

17. (SBU) Only 453 gaming locations have actually been licensed under the PGC's system. However, the PGC explained to the team that it wasn't a true licensing system, more of a simple registration. They don't do background checks, they don't require proof of origin for the money, just name, date, DOB, address, etc. The PGC also explained that they don't have the ability to do background checks beyond the borders of Peru. When asked directly by the team, "so then Osama Bin Ladin could start a casino here" they replied yes.

#### Holes in the System

18. (SBU) There is no requirement for reporting large currency transactions and no credit is allowed. The concern with the lack of legal credit in the gaming industry is that it forces the credit underground and creates a thriving loan shark market. There also seems to be confusion, or rather a free interpretation as to what constitutes a "suspicious activity" which a gaming location would be required to report. According to the Casino owners, it is not unusual for them to have individuals gambling 30,000 USD to 40,000 USD a day, and the owners argue because there are so few people in Peru with that kind of money, they know them all. And because they know them, it isn't suspicious since they do it all the time. The OTA team also reported that it is not uncommon for owners of Chinese restaurants to gamble up to 5000 USD per day. Finally, there is no prohibition on cash for cash exchange, cash for checks, and cash for wire transfer, all of which are allowed and unregulated in Peru but prohibited in countries that are considered "regulated." This lack of strong controls makes the system very vulnerable to counterfeit currency. NOTE: On October 28, NAS officials met with a US Secret Service official who stated that more US currency is counterfeited in Peru than anywhere else in the hemisphere. Additionally, foreign currency exchange appears to be unregulated. In the U.S., casinos provide foreign currency exchange services; however, the transactions are heavily monitored and controlled.

#### Fascination with the fancy toys

19. (SBU) OTA's overall impression of the PGC was that they had this misguided fascination with fancy technology. The Peruvian legislature is considering mandating that all slot machines must be linked to a computer center in Lima. If passed, this law would require each location to spend about 100,000 USD to install, forcing the smaller gambling operations out of business. Moreover, it has been learned in other countries that this solution doesn't result in greater enforcement.

#### The Baffling Peruvian Tax System

10. (SBU) According to OTA, the Peruvian tax system seems designed to fail and there are millions of dollars in tax revenue uncollected by the government. According to the law, there is a 12 percent tax on gross income - minus 2 percent for a "slot Maintenance fee" that the institution keeps. SUNAT showed the team their records indicating who has not paid their taxes but they have made no move to go and collect. The OTA team was baffled by the lack of interest in collecting the taxes. Furthermore, only SUNAT is allowed to look at the books in any gaming site, a fact that the casinos and slot houses use to prevent the PGC or the FIU from looking at their books. This remains a black hole in terms of regulation and control. Typically, governments will grant their Gaming Commissions the authority to collect taxes. When NASOff directly asked if the responsibility could be shifted away from SUNAT to the PGC, the XXXXXXXXXXXX not only explained that this would be difficult because it would require a change of law, responsibility. Though he admitted SUNAT's lack of interest in collecting the taxes from the casinos and gaming halls was a serious issue and an obstacle to better control of the sector.

#### Can't Get an Operating License Where you Are? Come to Peru!

11. (SBU) There are several casino operators in Peru who have been denied licenses in other countries. For example, Chile denied XXXXXXXXXXXX, which operates the XXXXXXXXXXXX in Lima, an operating license on the grounds that the company could not prove origin of f

Peru with their source of funds listed from a bank account in the British Virgin Islands and has no obligation to prove origin of funds beyond that particular bank account.

Comment

¶12. (C) OTA is most concerned about the inability of the PGC, or any sector for that matter, to identify the background on a Casino; the origin of the money; and true ownership. The Peruvian gaming sector is extremely vulnerable and attractive to/for money laundering. The team used Russia as an example.

Russia has essentially dismantled their gaming industry in an effort to wipe the slate clean and start over again with stronger control. As such, those forced out of operation in Russia will be looking elsewhere to operate their businesses and, according to the OTA team, Peru will be high on the list of preferences. OTA strongly believes that before any technical assistance on an operational and regulatory level may be conducted, the Peruvian legislature must change the gaming laws. Training at this point will be fruitless given the relaxed nature of enforcement laws in Peru. OTA has expertise in working with governments on drafting legislation and is currently working with Costa Rica and Antigua on this task. On a high note, NASOff and ECONOff met with the Vice Minister of Tourism - Pablo Lopez De Romana Caceres - on October 20 as a follow up to the OTA visit. When the subject of issues with the gaming laws was raised the Vice Minister said that he felt now was an opportune time to look at the laws and suggest changes. He also expressed his support for tight control and stronger regulation.

¶13. (C) NAS and DEA will work with the OTA team to assist the PGC's efforts in tightening control. As a result of this meeting, DEA will be translating into Spanish a draft law on Gaming that is used across the region. NAS will work with OTA on future visits not just for the gaming sector but to look closely at all aspects of the anti-money laundering system in Peru.

MCKINLEY

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